

A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

**“The development of an approach to Online Category Management with Unilever’s  
e-commerce drugstore trade partners in Germany”**



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**Abstract**

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This paper encompasses implications for retailers and manufacturers on how to encounter the complex and emerging e-commerce market for fast-moving-consumer-goods by building up consumer-focused competitive advantages, such as Online Category Management (OCM). Research was conducted to learn about shoppers’ needs and expectations for a satisfactory online shopping experience, and to indicate that the current online shops in Germany lack convenience and shopper orientation. Results imply that aspects of experience can be positively influenced by measures of Category Management, provided that they are adapted to online characteristics. This suggests that the development of OCM should be considered an important tool to contribute to shopper loyalty and to the growth of the online channel in Germany.

**Keywords:** Online Category Management, shopping experience, e-commerce, online environment.

*“We see our customers as invited guests to a party, and we are the hosts. It’s our job every day to make every important aspect of the customer experience a little bit better.”* (Jeff Bezos, CEO Amazon)

## 1. Introduction

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The complexity of the retail markets rises due to continuous growth of the e-commerce channel and its consequent increase of provider and product variety. The combination of technology advancement and the change in shopper behavior imply differentiated shopper expectations for retailers (Heinemann et al. 2013, 3). The Internet penetration in Germany has already reached 87% in 2015 and more and more product groups find acceptance in the online-retail<sup>1</sup>, such as personal care products or household commodities (see KPMG AG 2015; Nielsen 2015, 32). Due to the increase in shopping choices the buildup and protection of store loyalty becomes more important than ever. Similar to offline, shoppers choose their store in terms of what best suits their needs for convenience, choice and value (Nielsen 2015, 27/30). The essential challenge is to find strategies that enable retailers to generate consumer-focused competitive advantages (Heinemann et al. 2013, 3). A key role is played by innovative e-commerce business models that ensure a satisfactory shopping experience and are able to overcome the difficulties connected to intense market competition and the stimulation of shopper needs. (see Castaldo et al. 2013; KPMG AG 2015; Nielsen 2015, 30).

In the offline world the rise in complexity of the fast-moving-consumer-goods (FMCG)<sup>2</sup> market caused retailers to look for better ways to compete, to reconnect with consumers and satisfy their needs. The solution was an approach called Category Management (CM) (AC Nielsen 2006). The objective was to collaboratively manage and grow the categories by increasing buyer’s closure rate and the overall shopper loyalty in-store. CM was supposed to enhance the business results of retailer and manufacturer, by focusing on consumer value (see Dhar, Kumar & Hoch 2001, 169; GS1 2015). Based on the above-mentioned evolvement of e-commerce, it is evident that the FMCG online environment needs a similar approach to adhere to the new market conditions for pure players<sup>3</sup> and omni-channel retailers. Therefore the underlying paper, in collaboration with Unilever Germany, encom-

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<sup>1</sup> The tipping point for acceptance in online retail can be defined as the moment when a good or a service has been purchased online at least once by more than 10% of the population. (Nier 2015)

<sup>2</sup> Frequently purchased essential or non-essential goods such as food, toiletries, soft drinks, disposable diapers etc. (<http://www.businessdictionary.com/definition/fast-moving-consumer-goods-FMCG.html>)

<sup>3</sup> retailers that only operate in the online business and have no brick and mortar stores

passes the development of an Online Category Management (OCM) approach to the German market, based on learnings generated from the UK. According to the e-commerce innovations manager of Unilever, Joe Comiskey (*Interview*), OCM is just one part of doing CM with the objective to please and engage the shopper in the same way as offline. The goal of the paper is, to disclose more deeply the current development of FMCG e-commerce in Germany and its implications on how the implementation of OCM could help retailers to adapt to the new environment. While there is a variety of existing research on how people shop in brick and mortar stores, there is still little insight on the German FMCG online shopper and their needs, expectations and barriers for online shopping (Kantar Worldpanel 2015, 9). The overall objective of the paper is to give recommendations on how an adaptation of the CM tactics to the online environment and thus the implementation of OCM in Germany is able to positively contribute to the growth of the online channel<sup>4</sup>, by influencing the online shopping experience and shopper loyalty. (Comiskey, *Interview*).

The paper is divided in four main parts. The first part gives a brief introduction to the size and development of the German FMCG e-commerce market, as well as on the importance of e-commerce for Unilever. Additionally, it defines the original approach of CM in the offline world, including its evolution and process and sets the theoretical background for the derivations made in the subsequent parts of the paper. The second part comprises the research introduction, including the research proposal and methodology. In the third part, the findings generated through the primary and secondary research are used to differentiate OCM from CM and give recommendations on how to adapt the CM tactics to the online world. The concluding part includes a practical example, where recommendations for an OCM approach are constituted for the deodorant category of Rossmann.de, one of Unilever's e-commerce trade partners, including an outlook on next steps that need to be taken by Unilever in the future.

## **2. The German E-Commerce FMCG Market**

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E-Commerce is at a tipping point. Over the next years the new market conditions, caused by a higher degree of professionalization, technology innovations and a shift in shopper behavior, will change the learned business approaches of retailers and manufacturers immensely (Doplbauer 2015).

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<sup>4</sup> to drive metrics of frequency, spend, volume and penetration

Currently, the world's largest markets for e-commerce are the United States (1.), China (2.) and the United Kingdom (3.). Germany is number five in the global ranking (Ben-Shabat 2015, 4). However, the German e-commerce of FMCG does not reflect the market size of the overall German FMCG market. The total German FMCG market amounts to 216,7 billion Euros (2014), whereas the German online FMCG market has a size of 2,6 billion Euros (1,2% share) (Doplbauer 2015)<sup>5</sup>. Even though the FMCG e-commerce market is still small, the market research company GfK predicts the overall online food and personal care business in Germany to double its share of the online retail by 2025<sup>6</sup> (Doplbauer 2015) (Appendix 1). Unilever has identified these potentials and wants to participate in supporting the growth of the market. In order to overcome the barriers and take advantage of the opportunities that the rise in e-commerce bears (Mars & GfK 2015), Unilever wants to implement several projects to further build know-how and insights on FMCG e-commerce and achieve a respected role by retailers. The intention is to understand online shoppers needs and behavior, and to figure out in which way the company is able to translate its knowledge, generated for the brick and mortar world, to online (Luckfiel, *Interview*). One objective of the growth plan is the establishment of an Online Category Management (OCM) advisory for Unilever's trade partners. The OCM approach already exists in the UK, but until now it has not been implemented in the German market. UK is regarded as the best practice market, especially because the FMCG online market already has a share of 6%, compared to the 1,2% share of Germany (Groß 2015). The premise of OCM is the improvement of the online shopping experience. For Unilever the e-commerce presence is not just about online sales, but the reinforcement of a positive product experience and the influence on shoppers' consideration sets. It is about reaching the most valuable shoppers (Comiskey, *Interview*).

Right now FMCG e-commerce in Germany is at a starting point and manufacturers are still able to take influence. The sooner the manufacturer generates know-how on this business development, the more likely he will be able to take a leadership role as an e-commerce expert (Pogrzeba, *Interview*). By developing an approach to OCM and building detailed know-how on the German online FMCG

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<sup>5</sup> In the Unilever relevant online FMCG categories<sup>5</sup> (692 million Euros), the company has an estimated market share of 0,65% (approximately 4,5 million €) (Estimation based on GfK Consumer Scan 2014; Unilever internal Data & Nielsen Scanner Data, 2015)

<sup>6</sup> Which would account for 16% of the total e-commerce retail market in Germany

shopper and market, Unilever wants to be one of the first advisors at every major FMCG online retailer and be a key supporter in their road to Omni channel and e-commerce growth, as well as create long-term profitable growth for its own e-commerce business (Comiskey, *Interview*).

### 3. Category Management Definition and Evolution

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*“Category Management is a distributor/supplier process of managing categories as strategic business units, producing enhanced business results (e.g. maximizing sales and profit) by focusing on delivering consumer and shopper value”* (Castaldo et al. 2013, 151)

Category Management (CM) is a collaborative<sup>7</sup> demand side method of the Efficient Consumer Response (ECR) initiative that was developed in the early 1990s. The demand side management focused on practices to stimulate consumer demand and create consumer value, by optimizing marketing and sales activities such as assortments and promotions (see ECR 2011, 14; Corsten & Kumar 2005, 80/81)<sup>8</sup>. The goal of CM is to create a triple-win situation for all parties involved, meaning the retailer, the manufacturer and the shopper. Based on a collaborative relationship the retailer and supplier jointly manage and develop categories<sup>9</sup>, complied with the needs and expectations of shoppers and consumers.<sup>10</sup>

CM emerged in the early 1990s due to new market forces in the United States. Low margins, an immense product proliferation, the emergence of new channels and retailer types, as well as more diverse and more demanding consumers, caused a quest for a strategic foundation to manage the business and the opportunities to grow. The increasing access to information, especially through technology, made it possible to achieve superior insight on shoppers' expectations, to improve category performance, and thus achieve competitive advantage in the market (ECR 2000).

Starting out as an organized eight-step process (Appendix 2), CM enabled retailers and suppliers to manage product categories as individual business units. With time the process evolved and was seen as the starting point to develop customized processes with fewer steps to meet the individual needs of the collaborators (AC Nielsen 2006). For the suppliers CM was an opportunity to benefit from a long-

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<sup>7</sup> Between the retailer and manufacturer

<sup>8</sup> The initial emphasis of the industry initiative was on collaborative supply chain projects that should reduce inefficiencies and costs

<sup>9</sup> A category is a distinct, manageable group of products/services that consumers perceive to be interrelated and/or substitutable in meeting a consumer's need (ECR 2000)

<sup>10</sup> Main goals: 1. Serve the shopper better and provide a satisfactory shopping experience, 2. Maximize revenues/profits and improve the ways of working, 3. Maximize efficiency by limiting and simplifying range of products. (Thain & Bradley 2012)

term advantage in the market by building and managing a close relationship with the retailers. The shift in power - from manufacturers being the sole provider of consumer knowledge to retailers generating their own detailed information on shoppers - forced suppliers to consider the retailer as a separate and dominant force in the market and to develop a process that focuses on building a sustainable relationship<sup>11</sup> (Thain & Bradley 2012, 2).

### **3.1. The Purpose of Category Management**

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*“Business success – and indeed survival – is still all about having the right product at the right price with the right promotional support and in the right place” (AC Nielsen 2006)*

CM is able to generate benefits for the three main market participants. In principle, the management objective is to create an enhanced shopping experience and high levels of satisfaction as well as value for the consumer by evaluating the category mix and organizing it according to their needs. Additionally, if executed properly, CM can establish a powerful competitive advantage and differentiation for the retailer by improving the store image, attracting new consumers and increasing consumer loyalty as well as financial results. Lastly, by supporting and advising the retailer as a valued partner, the manufacturer is able to build a strong collaborative relationship with him, to grow categories of its own brands and increase its financial results in the long-term (Galanis 2009). To guarantee an efficient and successful CM, the overall process needs to be consumer-centric, meaning that the consumer needs and the aspects of the shopper journey have to be the guiding principle. Such a shopper focus can be achieved through a constant analysis and utilization of data and facts, including shopper demographics or past purchase behavior (GS1 2015). Furthermore, the collaboration implies a constant interchange of know-how and the combination of complementary resources in order to develop categories or new solutions for consumers (Corsten & Kumar 2005, 83). “Only by developing mutual trust and collaborating closely manufacturers and their retailers can deliver the greatest value to end users” (Kumar 2004, 124).

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<sup>11</sup> The overall interaction with the retailer became more complex due to its increasing negotiating power, its growing knowledge in marketing management (e.g. for private labels) and access to large amounts of shopper data (e.g. through loyalty cards) (Castaldo et al. 2013).



### 3.2. The Category Management Process

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CM consists of four main phases. In phase one, the **strategy phase**, the category managers take a strategically view across all categories of the retailer and identify the drivers of its strategy. It is where the overall direction for any CM project with that specific retailer is determined. Phase two includes the development of a **category plan**. In this phase a specific category will be assessed by working through six stages, including the definition, the role, the assessment, the targets, the strategies and finally the category tactics<sup>12</sup>. Phase three and four comprehend the **implementation** and the overall **review** of the project, including monitoring and tracking of the individual targets that have been set before. (ECR 2000, 7). The strategic foundation (phase1) of CM with a specific retailer is a long-term aspect that in most cases has been defined in the beginning of the partnership and stays the same throughout all projects. Also the first steps of the second phase are determined once and usually do not change over time (Schünemann, *Interview*).

Category definition: Defining the category is a strategic act that allocates the specific products to each category. This is aligned with the consumer's understanding and naming of the segment. Additionally, the structure of the category is determined in this step, based on the decision tree of the shopper (Appendix 3). The tree allocates the decision steps according to their importance for the purchase process. The more important one criterion is for the shopper's purchase decision the more ahead it is in the tree (GS1 2015).<sup>13</sup>

Category role: The role determines the strategic relevance of the category in the overall portfolio of the retailer as well as its meaning for the shopper. It is set according to the goals of the retailer. The GS1 has determined four main roles that a category can be classified as (destination, core, supplementary, impulse/seasonal) and each has different characteristics (see Appendix 4) (GS1 2015).

Category assessment and targets: During the category assessment sales data analysis (e.g. Nielsen, POS or scanner data) and shopper research are leveraged to identify gaps in the current performance

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<sup>12</sup> The individual steps will be explained in more detail on the upcoming pages

<sup>13</sup> The decision steps are those criteria that help narrow the decision down to one product (e.g. which category, for which gender, which brand, which variant, which size etc.). Depending on which step the shopper takes first, the tree is built up.

of a category, to highlight growth potentials and ultimately set targets. Aligned with this, performance measures are determined that create the opportunity for an on-going review (ECR 2000, 40).

Category strategy: Taking into account the category role, the assessment and the targets set, the next step is to define category strategies which build guidelines for the subsequent category tactics. The retailer and manufacturer can follow a variety of strategies for a category, which need to be aligned with the category goals (e.g. drive frequency, increase expenditures etc.) (see GS1 2015; ECR 2000, 50).<sup>14</sup>

Category tactics: When entering a store a shopper embarks on the so-called shopper journey<sup>15</sup>. Retailers and manufacturers need to understand the entire process of this shopper journey and decrease barriers such as difficult navigation (product is hard to find) or overwhelming choice (Sorensen 2009). For this, the category manager has a variety of *tactical measures* at hand, which can help to increase the buyer's closure rate<sup>16</sup> and the shopper's loyalty in store<sup>17</sup> (Appendix 6) (GS1 2015). The measures can be allocated to the four main tactics, **assortment**, **placement**, **price** and **promotion**.

Based on a retailer's strategy a category manager needs to answer the question, of what the optimal assortment for the retailer would be. Which products exist in the FMCG market, which ones are missing in the current assortment and can contribute to category growth when being listed? Which products are performing poorly and should be delisted? Which products can help to drive penetration, conversion and basket value? (ECR 2000, 53-56) The assortment has to be shopper needs-based and feature an optimal breadth and depth. Depth is the number of different products (variants, sizes etc.). The more variety it has, the more consumers it attracts. The breadth is the number of brands on shelf. Generally, a retailer offering a wide assortment is able to meet different consumer needs and thus achieve better category performance (Dhar et al. 2001, 170).

The placement tactic comprises visibility initiatives that determine the structure of the category and the optimal use of space within the store and on shelf. It is based on the strategies defined, the category

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<sup>14</sup> For more detail on how the strategies relate to the predetermined category role, see Appendix 5 in the appendix

<sup>15</sup> 1. The exposure, 2. The impression, 3. The sale

<sup>16</sup> How many shoppers of the category buy the category at the given retailer

<sup>17</sup> How much of the shopper's demand is covered by the given retailer in the category

assessment and the decision tree. To guarantee a good orientation and allow the shopper to easily search for his desired product the structure of the shelf needs to be aligned with the shopper journey, be easy to overview and facilitate the shopping experience (GS1 2015).

In terms of *promotion* the category manager can recommend on the optimal promotional mix for the retailer and the category, referring to the right amount, the right timing, the right length and type of promotion (GS1 2015). Display promotions, for example, can be used to enhance in-store visibility, to draw attention to the category and thus to influence purchase decisions positively. The activities can enhance the limited shelf space and secondary placements are able to engage shoppers more strongly (Dhar et al. 2001, 170).

Price and promotion are correlated tactics, since temporary price off promotions can have a great impact on the price movement in the market. However, *price*, other than the other tactics, takes on a special role. The retailer has price sovereignty, which implies that pricing agreements are not permitted. But manufacturers can, as part of their collaborative projects, take on the role of a strategic advisor and give price recommendations for long-term strategies that include a holistic view on the category and the overall market (IRI 2015, 3).<sup>18</sup> Furthermore, category managers are able to and should monitor the prices in the market, identify elasticity and determine how prices can be used to promote trial and increase purchase (ECR 2000, 57-59).

#### **4. Research Proposal , Methodology and Outcome**

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As mentioned before, this paper aims to give thorough insight on how the new environment of online influences shopper behavior and the purchase process. After having encompassed the definition and process of CM, the question is how it needs to be adapted to the virtual conditions to positively influence the online shopping experience and its effects on shoppers' behavior, such as loyalty. The following part will draw on this question and state the methodology and outcome of the underlying research, including those aspects that were already applied in the first theoretical part of this paper.<sup>19</sup>

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<sup>18</sup> He can for example recommend „RRPs (recommended retail prices) that give guidance on the level a product should be priced (Pogrzeba, *Interview*).

<sup>19</sup> see Appendix 7 for more detailed research proposal, limitations and detailed outcome (Appendix 7 – 28)

Methodology: The first part of the research drew from secondary data collection and analysis through extensive internal and external data research. Literature was reviewed, in order to better understand the concept of CM and its importance to manufacturers, retail partners and consumers. Additionally, recent studies on e-commerce and internal data from Unilever helped to assess the current development in the market and to derive opportunities for the FMCG e-commerce business.

The second part of the research proceeded in two main phases of primary data collection and analysis. In the first phase, exploratory research was used to formulate the underlying problem more precisely, to develop research questions for further analysis and to gain insights for developing an approach to the problem. During this first step eight qualitative in-depth interviews with Unilever's category management experts were conducted. In order to get a holistic view on CM and CM at Unilever the sample for the in-depth interviews comprised category managers with different backgrounds and experience in CM. Additionally, to generate sufficient insights and ideas on OCM and the preconditions for the underlying project, experts from e-commerce, the Key Account Manager of Rossmann and the OCM expert from Unilever UK were interviewed. The extracted insights were used to support findings of the project and were embedded in the paper.<sup>20</sup>

Furthermore, to get a more detailed insight on the current online shopping experience in Germany and to generate assumptions for the next step, an additional qualitative approach – in form of a workshop with 22 participants – was executed. Part of this workshop was a brief introduction to OCM by Unilever's European e-commerce Innovation Manager from the UK, Joe Comiskey, and the determination of what needs to be done by the German team in order to successfully implement such an approach. The workshop also included an observation of online shopping trips, conducted by all 22 participants. The subsequent analysis of their experiences helped to build a groundwork for successive research. The second phase comprised descriptive research, conducted with the help of quantitative interviews. The interviews were executed via an online questionnaire, which was only distributed among German shoppers.<sup>21</sup> The research was used to quantify and validate certain propositions drawn from the quali-

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<sup>20</sup> The interviews were recorded, transcribed, and translated, as well as evaluated by means of topics mentioned (Appendix 8)

<sup>21</sup> Both online and offline

tative research regarding the shopping experience in German online shops and to generate insights on the online shopper and his needs. The aim was to clarify what aspects contribute to a positive online shopping experience and how that experience influences store loyalty. Also the research had the objective to determine if CM tactics can be used to improve the overall online shopping experience and how they need to be modulated to be more effective. Consequently, the quantitative part was developed to give insights on the expectations regarding assortment, placement, promotion and price. The convenience sample of the quantitative research reached a total of 283 respondents, of which 213 were valid and could be used for the analysis, yielding a 75,3% response rate. 70 responses were not considered, due to incomplete answers. Also, 8 responses were left out since the respondents were not responsible for at least 50% of decisions related to FMCG shopping. Consequently, the basis for the analysis was **205** responses. The respondents were divided in two groups (FMCG online shopper and non-FMCG online shopper), which received partially differentiated questionnaires. The first group, 98 respondents, was asked additional questions regarding their online shopping habits, their recent shopping experiences in German online shops and their satisfaction with it.

Outcome: The observation of the online shopping trip and its assessment implied an overall unsatisfactory shopping experience in German FMCG online stores. Under analysis where three different stores, a pure player supermarket (“myTime”), an omni-channel supermarket (“REWE”) and an omni-channel drugstore (“Rossmann”). 80% of respondents stated, that under normal conditions for their private consumption, they would have not completed the shopping trip. The overall experience was negatively assessed in all three stores, with a main issue of “lack of convenience” and “missing shopper orientation”. Aspects that were mentioned by a majority of participants were a confusing navigation, missing or confusing filters and menu structure, as well as a not comprehensible placement of products (for further details see Appendix 9).

Overall, the outcomes from both qualitative researches led to several propositions regarding the online shopping experience and its influence on store loyalty.

Main <u>propositions</u> from qualitative research	Main <u>insights</u> from quantitative research
1. The current online shopping experience in German online shops is not or only moderately satisfying	The majority of respondents were moderately satisfied with the overall shopping experience of their last online purchase (54%). 27% were not at all or rather not satisfied.
2. The aspects of shopping experience that can be improved by CM tactics and measures are not or only moderately satisfying	Clarity of website structure: 25% were not at all or rather not satisfied; 43% were only moderately satisfied Ease of navigation: 38% were not at all or rather not satisfied; 48% were only moderately satisfied Ease of product search: 38% were not at all or rather not satisfied; 34% were only moderately satisfied
3. The aspects of shopping experience that can be improved by CM tactics and measures are relatively important to online shoppers	Respondents saying it is very important or crucial for them <ul style="list-style-type: none"> <li>Clarity of website structure: 86%</li> <li>Ease of navigation: 81%</li> <li>Ease of product search: 84%</li> </ul> Those three are the aspects of experience, that can be influenced by CM tactics, which were assessed the most important
4. An unsatisfactory experience of those aspects negatively influences the shopper loyalty	Respondents saying it is extremely or rather unlikely that they would return to the store if that aspect would have not been satisfying during the last purchase <ul style="list-style-type: none"> <li>Overall shopping experience: 60%</li> <li>Clarity of website structure: 61%</li> <li>Ease of navigation: 57%</li> <li>Ease of product search: 65%</li> </ul> One can assume that, next to the delivery and payment process <sup>22</sup> , the satisfaction with the clarity of the site, the ease of navigation and ease of product search has a crucial influence on the shopper's loyalty

Additionally, the research was developed to examine **how the tactics of CM need to be adapted to the online environment in order to meet shopper needs** and thus determine **what the difference between CM and OCM tactics are**. The outcomes regarding preferences for the CM tactics (assortment, placement, promotion, price), which imply an overall adaption to the online environment, were embedded in the subsequent parts of the paper and the appendix.<sup>23</sup>

## 5. The Importance of Online Category Management for E-Commerce Players

According to Comiskey, the key success factor of OCM is customer loyalty and retention. Those measures display a distinctive reason for retailers and suppliers to participate in learning and implementing OCM. They can be driven by building on triggers that facilitate and positively influence the shopper experience, while reducing the barriers for potential shoppers. In the UK the optimization of product illustration and naming, which helped to facilitate the search of products and product recognition, was already able to generate a 25% uplift in sales<sup>24</sup> (Comiskey, *Interview*). The goal of implementing and testing OCM in Germany is to validate that the OCM tactics can have similar effects on

<sup>22</sup> which were assessed with being very satisfying by the majority of respondents (delivery = 47%; payment = 51%)

<sup>23</sup> see more data and detailed questionnaire analysis in appendix, Appendix 10-27

<sup>24</sup> For the other aspects of OCM there is no data yet, but they are expected to contribute to growth too

sales (Kamp, *Interview*). Customer loyalty and satisfaction are able to drive certain key performance indicators such as number of categories in the basket, average basket value or average frequency of store visit and purchase (ECR 2000). It is extremely important to build on consumer loyalty, since retailers with an online presence are usually able to prevent valuable shoppers from switching the store in the long term (Kantar Worldpanel 2013, 1). The rapid emergence of new stores increases the number of alternatives available to the consumer every day. According to Nielsen, the relevant set of FMCG stores for German shoppers is quite big and they on average visit about four different stores to cater their special interests. Additionally, in e-commerce, the shopper is not limited to a specific region and thus has relatively low switching costs. (AC Nielsen 2006). The high competition in the market is one reason why consumer loyalty is so important for online retailers. Additionally, the online shoppers' characteristics also justify why it is so important to retain them. Even though online shoppers have the possibility to easily switch between stores, they are more likely to stay loyal to one store compared to offline once they were satisfied. The first visit usually establishes habits and drives loyalty in the online world. Most of the online shoppers set up an account, including payment details for more convenience, and start establishing a search and purchase history or even a favorites list (33% of shoppers) (Groß 2015). For both, the retailer and the supplier, those favorite lists display a huge opportunity to get a shopper committed. They experience stronger loyalty and higher sales, since shoppers search for convenience and use the same list repeatedly (Kantar Worldpanel 2013, 1). A 2015 study of the ECC Köln states that more than two thirds of online shoppers preferentially purchase in the same store again. Especially shoppers aged under 30 stay loyal to their preferred online store. Additionally, an average online shopper spends two to three times more per trip than during an offline purchase (Kantar Worldpanel 2015, 1). Those valuable shopper profiles indicate opportunities for profitable growth. In consequence, online retailers should build on their key strength to encourage repeat visits by delivering good user experiences and by directly establishing a positive sentiment in the first moment of contact (Kantar Worldpanel 2015, 11). The overall shopping experience should be considered extremely crucial, as it is very likely for the shopper to switch to a competitor if a website does not offer a consistent and positive experience. According to a customer experience study by SDL (2014),

89% of shoppers have changed to a competitor's store due to a bad shopping experience at an online retailer.

FMCG retailers are still quite reserved to fully participate in e-commerce and have concerns regarding the cannibalization of their physical channel. But studies show that the online and offline channel are rather complementing each other than competing (Rigby 2011). Online is able to generate incremental sales and shoppers are more likely to spend a higher share of their budget at the same retailer, when he has an online store (Kantar Worldpanel 2013, 4).<sup>25</sup> Additionally, for existing retailers it is better to keep up with the new market conditions and take the risk of cannibalizing their offline sales, than losing their sales to others that adopt to the new channel more quickly (Rigby 2011).

### **5.1. Online Category Management – Differentiation between the online and offline environment**

*“Online Category Management leverages proven Category Management approaches, analyses, problem-solving and merchandising principles to optimize sales and profits for an e-commerce retail website.”* (Leech, 2014)

Since CM was first established, retailers and manufacturers were able to build up great know-how on how to manage FMCG categories based on consumer insights. Over the course of time the retail landscape has gone through many changes during which the original process of CM was adapted to individual circumstances and characteristics of the retailer, manufacturer and category involved. However, taking into account the rapid change in technology, consumer behavior and the shift and expansion of new retail channels, the following years will cause an even greater transformation of the market (HDE 2015). The emergence of e-commerce translates into the need of building up new know-how and knowledge of the channel, the shopper and the shopping environment to create a new framework on how to perform efficient CM in the online environment (Groß 2015).

The knowledge of how to manage the offline store already exists at retailers and manufacturers. The category managers are experienced in how to introduce new products to the market and how to manage existing ones, how to organize and set up the aisles and shelves in-store, and how to manage price and promotion. Nevertheless, operating in e-commerce does not simply indicate an activation of another sales channel with the help of existing measures. It is a new distribution method that has differ-

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<sup>25</sup> In the UK, Tesco online shoppers spend 46% of their total budget with the retailer, compared to the offline shopper with 29% (Kantar Worldpanel 2013, 1)



ent operational specifics compared to the offline stores (Castaldo, Grosso & Premazzi 2013, 171). When looking at online, the store is not only replaced by a screen, but the overall reason to shop, the way how the consumer shops and thus how the different CM tactics should be managed, change. The online environment is different from the offline store. In the online world there are no aisles that the shopper can amble through and be pulled towards beacon brands, just because they are displayed with the biggest amount of shelf space (Comiskey, *Interview*). In the online store the single item becomes more important (similar to the catalogue model) and market leadership cannot be demonstrated by the number of facings a product has and its position on shelf (Clavis Insight 2015). In the virtual world the contact to a product is limited to the “cognitive-affective dimension”, meaning that the interaction with the product is limited to the content that is provided (images, videos, product information etc.) (Castaldo et al. 2013, 177). Therefore, the set-up of the item and the product page displays a critical step that is able to generate demand and consequently the willingness of retailers to purchase stock from the manufacturer. In brick and mortar stores suppliers persuade the retailer to stock a product and then push sales through promotion and marketing. Whereas, in the online store shopper demand needs to be created in order to spawn sales (Clavis Insight 2015). The products need to be available, need to be found easily, displayed and promoted properly.

## **5.2. Online Category Management Process**

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OCM is able to manage the categories and their set-up according to the above-mentioned conditions, provided that the parameters of CM are adapted to the virtual world. Looking at the individual steps of the CM process an approach for online should also include the four phases of strategy, category plan, implementation and review. The following framework will mainly focus on the tactics of the category plan, since the included parameters are the ones that differ the most to offline.

Category definition and role: In the virtual world the shopper follows a new fragmented purchase journey. There are a series of steps that he can go through, from inspiration to purchase decision, and it is quite easier to go back and forth between channels and touch points. The retailers need to determine how this new conditions influence the category and its set up (Ohri 2015, 6). The category definition in the online world can be wider than offline, since the products in an online store are usually allocated

by means of their usage occasion, and can be placed various times in the menu structure (Groß 2015). A product, for instance, can be allocated in a category called “bakery” and at the same time in the category “spreads”, depending on where the shopper might search for it (Comiskey, *Interview*). The way how people search their products online can differ based on the type of trip. Mostly, when shoppers search a specific product they use the search bar, whereas when they want to browse and get inspired, they click through the navigation system (Nier 2015). Nevertheless, one cannot distinguish a clear difference between the online and offline decision tree<sup>26</sup>. Although the brick and mortar store environment is different, the decision process a shopper goes through when moving down the aisle or standing in front of a shelf, is quite similar to the one of the shopper clicking through a website (Sorensen 2009, 150). Also, the determination of the category role is very similar to offline and depends on the overall strategy of the store and the category’s relevance for the retailer.

Assortment: In the online world the assortment is not limited to constraints of the physical shelf space or distribution due to regional restrictions. In consequence, retailers theoretically could expand their portfolio regardless of any distribution limitations (Anderson 2006). However, more and more retailers revise their approach to assortment and realize that listing any niche or long-tail product, could be a very unprofitable way of operating (Clavis Insight 2015). Additionally, the choice of portfolio is limited by the type of logistics and fulfillment process the online retailer has. Depending on, whether he picks the products from an offline store, from a dark store<sup>27</sup> or from a warehouse, the assortment size can differ (Comiskey, *Interview*). Overall, the challenge is to select those products that fit with the retailers’ strategy and define the depth and breadth of the assortment according to the shopper needs (Clavis Insight 2015).

70% of the interview respondents say they would like to have a wider assortment online than offline. Most of them desire an enlargement of the range by new products, that are not (yet) available offline (68%) and products that have been taken out of the assortment offline (81%) (Appendix 19/20). An assortment expansion is able to increase consumer choice, satisfy higher number of general needs, as

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<sup>26</sup> The research indicates that the majority of respondents follow the same decision tree as in offline (Appendix 22)

<sup>27</sup> retail outlet that caters exclusively for online, looks like a conventional offline store but is not open to the public

well as the differentiation needs of the market (Thain & Bradley 2012, 229; Castaldo et al. 2013, 38). The aim of Ocado, an online supermarket in the UK, that already has successfully implemented OCM, is to have two products in every basket that you can't buy anywhere else. Those products, even though they might not be very profitable, help to drive loyalty and differentiate the store from competitors (Comiskey, *Interview*).

Product availability increases consumer loyalty (Thain & Bradley 2012, 229). However, to stay in-stock is a lot harder online than in brick and mortar stores. Offline one looks at the inventory in a slower and longer cycle than online, where inventory is smaller and sales move so quickly that a daily monitoring of the stock is necessary (Clavis Insight 2015). On that account, and also because online shoppers cannot pick their products by themselves, the process of substitution is extremely important. When the first order experience of a shopper goes wrong and he receives a substitute product that is completely out of scope or worse that he might be allergic to, he will be unlikely to return<sup>28</sup> (Wijaya & Borders 2012). For the substitution process to work, the category manager should take the decision tree as a basis and substitute the desired product with one that differs only from the original product by the least important decision factor (Comiskey, *Interview*).

Placement: In the offline world CM helps the shopper to navigate through the store and find his product in the most efficient way and time. Aisles that are dedicated to a certain category and the shelf allocation itself trigger the discovery of the right product and are learned by the shopper. The retailer and manufacturer can use certain tools to attract the attention of the shopper at the point of sale and to pilot him through the variety of products (Bönning, *Interview*). The shelf-space and shelf-place affect the amount of notices and number of purchases for a specific product. For example has a product that is placed at the eye-level a more valuable placement than one at the foot level. Also the number of facings, the depth of inventory and the position within the store have an impact on the purchasing decision (Thain & Bradley 2012, 71-72). A product is considered when it attracts attention and when it is able to persuade the shopper that it is worth buying. This is the same in online and offline. However, due to the difference in the products presentation (shelf space and facings), the way shoppers find their

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<sup>28</sup> Example from UK: shopper wanted to buy limes and received aubergines

product and how they build up their consideration set is different in the virtual store. In the online environment the shoppers either use the keyword search or the navigation menu to find their category and product, and thus its placement is represented by its rank in the search results as well as where and how often it can be found in the menu structure (Clavis Insight 2015). According to Groß (2015) shopper satisfaction rises, the faster and easier the shopper orientates himself and if the structure of the category seems logical to him. Peter Leech says, “a retailer’s true assortment is what is seen by a shopper”. Already 80% of clicks happen on the first page of search results<sup>29</sup>, whereas only 20% of shoppers click beyond the first page (Nier 2015).<sup>30</sup> Overall, the search results and the location where the shopper can find the item have an immense influence on which products will be part of the shopper’s consideration set (Comiskey, *Interview*). The order of the search results depends on the kind of algorithm that the retailer uses. Nevertheless, the algorithm should be aligned with the shopper’s expectations and needs. The majority (59%) of research respondents expects the bestseller products to appear first on the product page. When the most expensive products are top of the scroll, the basket value is 15% higher, whereas an alphabetical order decreases the basket value and size significantly (Groß 2015). In many online stores, instead of displaying the market share by facings, the share is shown by the placement order.<sup>31</sup> Convenience and the ease of search contribute immensely to the shopper experience and customer loyalty (Thain & Bradley 2012, 229) and according to the research have a high importance for the majority of online shopper (search=84%; navigation=79%).

Promotion: The overall goal of promotional measures is to drive sales of a product or brand by increasing its awareness and attitude. Looking at the physical store, promotions are able to interrupt the trip of a shopper and augment the probability of a purchase by catching his attention via special displays, flagging information or other point of sale material, and thus lure the consumer from competitor products to one’s own (Thain & Bradley 2012, 72). In the online world ratings and reviews have the same persuasive power and are able to drive conversion, especially when shoppers are looking for

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<sup>29</sup> 64% even on the top 3 items

<sup>30</sup> Also the majority of respondents to the online questionnaire would look maximum at one to two pages (49%)

<sup>31</sup> A product on top of the scroll has 100%/(300%) higher market share compared to a product in the middle/(at the end) (Groß 2015)

new products or brands (Clavis Insight 2015). According to a survey conducted by Dimensional Research in 2013, reviews are a powerful tool that can impact a buying decision immensely. The majority of respondents, who have seen reviews, said the information provided did influence their purchasing decision. This applies to both, positive reviews, where 90% of participants were influenced, as well as negative reviews, with 86%.

In brick and mortar stores end-of-aisle promotions and displays are used to encourage impulse purchases. In online on the other side, due to the virtual environment and the augmented use of favorite lists, the trigger for impulse poses a big challenge. An alternative for online retailers to impel additional purchases could be the use of extra pages with personalized product recommendations directly before the check-out area. Those recommendations should add value and should not be too intrusive or difficult to skip (Kantar Worldpanel 2015, 9). Due to consumers' habitual behavior, Ocado in the UK offers its customers recommendations based on their previous purchase history (being considerate of diets, personal preferences etc.) (Nielsen 2014).

Basically, most of the promotion tactics used offline can also be applied online. For omni-channel retailers they can even be used as a tool to interconnect the two channels (Luckfiel, *Interview*).<sup>32</sup> However, whereas in the past marketers mostly relied on mass-market advertising and promotions, now there are new measures online that can provide targeted, individualized and location-based promotions at any time (Rigby 2011). The research implies, that promotions, compared to the ease of usage, are not that relevant for online shoppers.<sup>33</sup> On this basis, retailers could, instead of using too many promotions, give more importance on featuring an efficient amount and balance volume increase vs. margin decrease.

*Price:* According to IRI (2015, 3), there are “few things (that) can make or break performance quite as rapidly or significantly as the price. If it's too high, the sale is lost, and if it's too low, margin is lost.” Price is a critical lever that is essentially influencing the reach of retailers' and manufacturers'

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<sup>32</sup> For example promotions that offer a price off for the next purchase in the respectively other channel

<sup>33</sup> Only 32% state that they are important, 35% that they are not

goals and can improve profits of both participants immensely<sup>34</sup> (IRI 2015, 2/3). In online the market participants face a completely new situation. Due to increased transparency, the pricing power has moved substantially towards the consumer, who is able to do real-time comparisons (BCG 2014, 19). Fast price movements and flexible adaptations to market conditions and competitors' behavior increase the volatility of the market and confront retailers and suppliers with an even more challenging task (Clavis Insight 2015). The big players in e-commerce, like Amazon, have dynamic pricing. They match the lowest competitive price in the market (regardless if it is a promotional price) and tailor their pricing to different purchasing occasions or timeframes (IRI 2015, 6), while other retailers, such as dm, match the average price in the market. The more price promotions other retailers do, the lower the average price gets and thus the higher is the decline in price (Wruck 2015). For the manufacturers it is the big challenge to try to collaborate with retailers and advice on strategies that forego "*immediate, short-term price gains in favor of larger, long-term benefits*" (IRI 2015, 7). Next to giving recommendations on RRP's and everyday low prices (ELP) category managers can set up promotion plans for the overall category and calculate the number of promotions a retailer should do to hold volume increase and margin loss in balance (Wruck 2015).

According to BCG, price is not the sole driver of online anymore, the crucial differentiator for market participants are convenience and trust, as well as value and product assortment (BCG 2014, 21).<sup>35</sup> Also, pursuant to the research, is the perceived importance of price for online shoppers, compared to the other aspects, very low. Only 48% respondents of the research state that it is important for them. 57% of people expect the price to be the same as offline, and thus do not expect it to be cheaper (Appendix 25). FMCG online retailers can build on this, reduce the amount of price promotions and set prices at higher levels or at least at the same level as offline. By giving more importance to convenience and shopping experience, instead of focusing on the lowest price in the online market, retailers could prevent the continuous price erosion in the market.

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<sup>34</sup> A 1% improvement in price realization will deliver \$10 mill. in increased profits for every \$1 billion of annual sales

<sup>35</sup> According to a IGD study the big driver for people to shop FMCG product online is convenience (IGD 2013, 31)

*Implementation and category review:* A distinguishing feature of the online world is that an implementation of a CM project will have a distinctively shorter time frame than offline. Compared to offline, where the project needs to be implemented in all physical stores individually, online changes only need to be made once in one location, the online store. Also, technical changes are relatively easy and fast to implement and even the possibility to test is facilitated through opportunities such as A/B testing<sup>36</sup> (Fung 2014). Finally, the long-term monitoring of the project is simplified by the means of technical support and the focus on one ‘location’ (Wruck, *Interview*).

## **6. Online Category Management Framework for Unilever’s Online Drugstore Trade Partner Rossmann.de by means of the Deodorant Category**

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*“Category Management is all about finding out what shoppers want and providing it better than the competition can.”* (AC Nielsen 2006)

After having defined the opportunity for CM in e-commerce and the key areas that need to be adapted to the online environment, a practical approach to one of Unilever’s trade partners’ online stores was developed. The outcome is supposed to be used to test OCM in real life and comprises a guiding framework for future OCM projects of Unilever. For this project the online drugstore Rossmann.de has been chosen as a test customer.<sup>37</sup>

The aspired role of Unilever in the partnership with Rossmann.de is to be a valuable business partner that provides support and gives recommendations, substantiated by consumer insights. The e-commerce partnership could be a clear differentiator, given that currently neither the retailers nor Unilever’s competitors are really far ahead in terms of online (Comiskey, *Interview*). A pre-requisite is that Unilever and Rossmann.de develop a joint approach to test and learn together. Unilever needs to build trust through competence by taking the role of an unbiased and strategically thinking category advisor (Wruck, *Interview*). For Rossmann.de the experience of Unilever displays a great opportunity in order to grow their channel and drive customer loyalty. Currently, there are no possibilities in the market to gain advice on the FMCG online shopping experience (e.g. from external agencies). Unilever as a global manufacturer however, is able to benefit from the know-how, built up in more ad-

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<sup>36</sup> To test a variant of a website (with changes) against a control website (without changes) and see what changes increase an outcome of interest

<sup>37</sup> see Appendix 29 for key facts of both companies

vanced countries, such as the UK, and can share this knowledge with Rossmann.de on the basis of a joint OCM approach that was developed in the underlying paper (Kamp, *Interview*).

*Initial Situation:* For the brick and mortar stores Unilever and Rossmann have already established a collaborative relationship via CM. Unilever is category captain in the deodorant and shower category and advises Rossmann on assortment and placement measures. With the expansion of e-commerce and its increasing importance for the FMCG market, Unilever wants to expand the advisory to online and use its generated know-how on the online environment and on OCM to deepen the partnership with Rossmann. Moreover, the developed approach will be seen as the initial starting point for the implementation of OCM and will be used to test and learn. The deodorant category will be the first under analysis and will be used as a best practice for further projects in the future. Deodorants have been chosen due to the already existing and well established collaboration, the know-how Unilever has by being the overall deodorant market leader with its six different deodorant brands,<sup>38</sup> and its significant overall turnover contribution of 28% at Rossmann.de (Appendix 30) (Kamp, *Interview*).

*Category definition and role:* For the category definition there needs to be a clear understanding on the products that are allocated to the deodorant category and its structure. The product allocation to the overall deodorant category is the same as in offline. Nevertheless, due to the wider category definition based on the usage occasion that comes to shoppers' minds when thinking about the category, products can be placed in more than one place in the menu structure. Looking at the Rossmann online shop, there are two areas of the menu structure where deodorants can be placed, "fragrances & perfumes" and "body care and cleanse". For instance, taking into account Unilever's deodorant brands, AXE, a body spray that focuses on fragrance, could be allocated in both areas of the structure. The double placement can enhance the possibility for AXE to become part of the shopper's consideration set.

Regarding the decision tree of the shopper the research yielded that the way shoppers make decisions along the purchase process does not differ online from offline. Therefore, the online decision tree for deodorant, which builds the basis for the category structure, is the same as in offline (Appendix 31).

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<sup>38</sup> Rexona, duschdas, Dove, Dove Men+Care, AXE, Impulse



According to Rossmann itself, as well as examining the category structure and its sales, deodorant can be clearly defined as a core category, similar to offline (Appendix 32). Deodorant sales are in 70% of cases based on a planned purchase (Nier 2015). For the shopper it has a relatively high relevance, since it is bought frequently and has a high penetration. For the retailer the relevance is average due to a medium margin (Appendix 33) and a relatively low differentiation possibility. In order to stay at a same level with competitors and to drive frequency and penetration for the store, the core category needs to have a wide assortment, competitive pricing and promotion and should be easy to detect (see Dhar et al. 2001; Nier 2015).

*The Rossmann Online shopper:* The characteristics of the typical drugstore shopper and those of the Rossmann.de shopper in specific, imply distinct measures on how to engage and address him. Taking into account the drug channel, there are two different trips that drive shoppers to visit an online drugstore. During the experiential trip, the shopper engages with the content on the website and explores new products and solutions. He is open-minded to try out innovations or products that he is not able to find offline. Whereas, the routine shopping trip implies a stock-up on products that are used regularly, like basic personal care essentials such as cleanse and care products (Unilever 2014). Looking at Rossmann.de in specific, the online shoppers are, compared to offline, disproportionately female, young with a higher disposable income (under 35, affluent, single) and mothers of families (2+ household, value-driven). For them visiting a drugstore is “going shopping” rather than “doing shopping” and they are looking for new and innovative products to discover, while also being value-for money focused due to their families. Regarding their level of involvement, it is higher for beauty products and slightly lower for everyday toiletries (see Unilever 2014; Rossmann 2015). Taking into account those attributes, it seems evident that Rossmann.de should use the CM tactics to serve both types of trips at the same time and offer its shoppers an engaging experience, while also giving importance to convenience and value-for-money.

*Current Performance:* Looking at the deodorant sales and total sales of Rossmann (online+ offline), one can clearly determine growth potentials (Appendix 30). The online business of Rossmann is extremely small (share of 0,2%) and lies under the average online market share of FMCG products in

Germany (1,2%). In one week the offline turnover amounts to 39,4 million Euros, whereas the online sales amount to 64.293 Euros (week no. 47/2015). Comparing the shares of deodorant in both channels, they are equal (9%). Looking at Unilever sales at Rossmann, the share of total sales is also almost equal (6% offline vs. 7% online). However, taking into account the Unilever deodorant share at Rossmann.de (22%), the category lies under the fair share of offline (31%). Consequently, the deodorant category features clear potentials to grow in sales by reaching the same share of sales as in offline. The results of the observation of the shopping trip at Rossmann.de (Appendix 9), the statements of Unilever's Rossmann Key Account Managers as well as the quantitative research imply that currently the barriers of a positive online shopping experience outweigh the triggers. Appendix 28 indicates that those online shoppers that already bought at Rossmann.de (33 people) predominantly assess the shopping experience as unsatisfactory. As implied by the research conducted, shopping experience and customer loyalty are in most cases interrelated. Correspondingly, Rossmann.de needs to improve the overall shopping experience of the shop by facilitating convenience, ease of use and product search in order to drive growth for the future. The goal is to drive penetration and frequency as well as to build customer loyalty and increase retention. The following recommendations on CM tactics build on the insights analyzed in the underlying paper as well as the strategy and status quo of Rossmann.de.

Assortment: Rossmann.de picks its product for the online store from a warehouse. Consequently, the assortment is not limited to the offline range but still to the limited amount of space (Rossmann 2015). Taking into account that deodorant is a core category, the assortment should be wide and be on a competitive standard. Furthermore, to support both types of drugstore shopping trips, experiential and routine, as well as to meet the demands of shopper's to have more variety online<sup>39</sup> the first step of Rossmann.de should be to equate the online with the offline assortment.<sup>40</sup> In the following step Rossmann.de should extend its assortment with products, which are not offered in brick and mortar. Displaying innovations and products that are not available offline could generate, first visits, drive frequency and increase loyalty for Rossmann.de, since they are desired by most of the online shoppers

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<sup>39</sup> 70% of respondents say they would like to have the same assortment offline plus additional products that can only be bought online (Appendix 19)

<sup>40</sup> The list in Appendix 34 shows those Unilever deodorant products that need to be listed online to draw level with offline

(Appendix 20). Moreover, those products meet the needs of the typical Rossmann.de shopper, to browse and get inspired.

Placement: The Rossmann online shop displays several improvement areas that can be enhanced with the help of placement measures. Currently, the menu structure includes many irrelevant filters, which do not offer any added value for the shopper.<sup>41</sup> Also the structure is not aligned with the online shopping journey and could overwhelm the shopper due to the high amount of filter options, which are all displayed on the left side (Appendix 35). In order to reduce purchase barriers and convert more visitors to buyers, the orientation and navigation needs to be improved. The taxonomy should be aligned with the deodorant decision tree and guide the shopper step by step through the specific decisions (Schünemann, *Interview*). Further filter options can be included but should not be in focus.

As mentioned before, the placement of a product and thus its consideration in the online world is determined by its rank in the search results. Currently, the deodorant search results of Rossmann.de neither meet the needs of the shoppers, nor reflect market conditions. Appendix 36 demonstrates that the products are not ranked according to their market shares. Unilever, for example, which is the market leader in deodorant (30,7% market share) has a share of shelf of 3,3% on the first two pages. Taking into account that 80% of shoppers only look at the first page, it is almost impossible for Unilever's deodorant products to be seen and thus considered. An optimization of the product placement (share of shelf = market share) could increase sales and therefore help to reach the fair share (31%) for Unilever deodorant, especially, because the majority of online shoppers expect bestsellers to be displayed first in the search results (Appendix 21).<sup>42</sup> One way of improving and facilitating the search is the product naming. The naming of products should be corrected, including all relevant search information (brand, sub brand/key differentiator, functional name (search term), variant, size) (Nier 2015).<sup>43</sup> The navigation and search is fundamental to the website experience, and therefore Rossmann.de should keep the overall set-up as simple as possible, provide direct access to categories and offer an effective search (Kantar Worldpanel 2015, 9). The online drugstore shopper's intention is characterized by the willing-

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<sup>41</sup> deodorant filter called "holiday", that displays only one single deodorant

<sup>42</sup> This recommendation is constricted to Rossmann's willingness to present its private label 'Isana' according to its fair share

<sup>43</sup> As part of this work, a revision on the naming of Unilever's deodorant products was conducted (Appendix 37).

ness to browse and get inspired along with conveniently fulfill their routine shopping trip. An attractive and easy to overlook design can help to support those intentions and trigger browsing and impulse purchases as well as facilitate the routine trip via ease of use. Additionally, the accentuation of innovations or promotions can draw interest and create incentives to buy, and thus meets the needs of the defined typical Rossmann online shopper.

*Promotion:* The importance of impulse purchases is irrevocable. Almost every sixth online purchase is an impulse-buy (ECC Köln 2015). That is why online shops, especially drugstores, should be a source of inspiration. The mentioned recommendation pages a retailer can insert before the check-out area, are able to facilitate that inspiration, for example by recommending products related to those already in the shoppers' basket (Kantar Worldpanel 2015, 9). The English online supermarket Ocado, has already successfully implemented this promotional measure to trigger impulse purchases. An example for a success story is the dishwasher tablet from 'finish', a product that is usually easily forgotten. 80% of the sales of this product happen in the check-out area, triggered by those additional product pages (Comiskey, *Interview*). Relating to the quantitative research, online shoppers are very likely to purchase from recommendation sites with promotional products and do not perceive it negatively when their journey is interrupted by those pages (Appendix 24).<sup>44</sup> Respectively, Rossmann.de could implement the personalized recommendations, taking Ocado as a benchmark (example Appendix 38).

The previous part outlined the importance of ratings and reviews to increase awareness and trigger sales on a product. At the moment the majority of deodorant products at Rossmann.de does not have any reviews from consumers, although there are a variety of measures for a retailer to generate them and thus drive conversion. Rossmann.de could, for instance, make use of a review generating process, similar to the VINE program of Amazon.<sup>45</sup> Another method could be the linkage to reviews already existing on manufacturers' sites, keeping in mind that those are most likely to be more biased than those generated by the retailer himself.

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<sup>44</sup> They are also willing to select from a site with free samples, which could display another promotional activity

<sup>45</sup> reviewers, personally picked by Amazon, write unbiased reviews on a manufacturers' products  
(<https://www.amazon.com/gp/vine/help>)

Appendix 39 features several ideas for promotions and their assessment, which can be used to interconnect the offline and online channel, as well as those that can be used for online specifically. The promotions should pass through a test phase at Rossmann.de, monitoring and reviewing their potential for and effect on sales uplift and customer loyalty.

Price: Rossmann.de follows the same price strategy (high-low) as in offline. The promotions are supposed to attract customers to the store, where they are likely to also purchase higher priced items (Rossmann 2015). Taking into account the online shopper who is not that price sensitive as well as the overall affluent Rossmann.de customer, it is apparent that Rossmann.de should rethink its promotional strategy in the online business. Currently the online shop mirrors the promotional activities from the offline store. Appendix 40 shows an example of the deodorant Rexona, demonstrating what effect the 13 promotions in 2015 have on the price.<sup>46</sup> Since promotions influence price erosion, an overall reduction (offline and online) of Rossmann's promotional activities could hold the market price more stable. Next to promotional effects, one also has to consider other e-commerce players that take influence on the market conditions. As mentioned above, Amazon, a pure player with a dynamic pricing strategy, immensely contributes to price volatility. Before being able to support Rossmann.de on a long-term profitable price strategy, Unilever needs to find a strategy to manage Amazon as a customer and give price recommendations that support the stability of the market (Wruck 2015). Overall, recommendations given in the future need to support the goals of the retailer and respect the role the categories play (IRI 2015, 7). Deodorant is a core category at Rossmann.de, which implies an overall competitive pricing strategy (GS1 2015). In those categories, price promotions are able to drive store traffic (Dhar et al. 2001, 170). This is why Rossmann.de should not completely reduce its promotional activities, especially because it is part of its overall store strategy. Instead, the retailer should build on tools that attract shoppers through price reductions while increasing the store loyalty at the same time. A way to connect traffic and loyalty is subscribe and save, a measure that for example Amazon already uses.

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<sup>46</sup> The more promotions Rossmann does, the lower the price gets and the more it falls below the recommended ELP

Shoppers can choose any product they want and sign it up for subscription and save up to 15%.<sup>47</sup> The process drives loyalty by offering the consumer price reductions when signing up for a subscription. Especially for products bought during a routine shopping trip, meaning those that are used frequently, e.g. diapers, the tool spawns convenience and meets the needs and expectations of the typical online shopper.<sup>48</sup> Even though Rossmann.de mirrors the prices from offline, the overall online price is higher taking into account that the shopper has to pay a 4,95 Euro delivery fee for each purchase. In order to drive loyalty and increase the basket size and transaction value of a purchase, Rossmann.de should consider setting a threshold from whereon the delivery fees approach zero.<sup>49</sup>

Regarding Rossmann.de, the outcomes of this paper were limited due to confined access to data. The recommendations were therefore restrained to Unilever examples and should, provided that Rossmann.de is willing to collaborate more deeply, be extended to the overall category in the near future. Given that, frameworks for the substitution and key word process should be established, too. Overall, the partnership with Rossmann.de is supposed to be based on testing and learning. Every implementation should be measured and monitored continuously in order to generate learnings for the future and to evaluate the results against agreed strategical metrics.

## 7. Conclusion

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*"If you do build a great experience, customers tell each other about that. Word of mouth is very powerful."*  
(Jeff Bezos, CEO Amazon)

The goal of the underlying paper was to disclose how the adoption of competitive strategies in the online environment is able to overcome performance insufficiencies of German FMCG online shops. The developed OCM approach is supposed to build a framework for future actions to support FMCG e-commerce growth and the build-up of convenient online shopping experiences in order to drive consumer loyalty. The biggest challenge for e-commerce retailers will be to keep up with the continuously changing expectations of consumers. OCM, just as offline, is an extremely complex topic that cannot

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<sup>47</sup> Shoppers can choose a product, an amount and a timeframe and sign up for subscription. The product is then frequently delivered depending on the time interval chosen, without that the shopper has to do anything further (<https://www.amazon.com/gp/subscribe-and-save/details>)

<sup>48</sup> For 52% of shoppers the reason to buy online is to restock their pantry, for 65% to get the products conveniently delivered, for 63% to save time (Appendix 18)

<sup>49</sup> According to BCG home delivery starts to be feasible at a price point of 20-30€ depending on weight and turnover rate of a product (BCG 2014, 14)

be executed without having established certain processes, detecting key data and owning technical and analytical know-how. This paper identified the main differences of the online and offline store environment and shopper journey and gave guiding recommendations on the necessary adaptation of the CM tactics. For the future, Unilever and its trade partners should first focus on improving the basics, by setting up all products in the best possible way<sup>50</sup> and then dive more deeply into the individual categories, assessing the performance measures in more detail<sup>51</sup>, and continuously monitoring and measuring all implemented actions.

Even though the e-commerce market for FMCG products is still in a fledging stage in the German market, one can definitely indicate a changing situation for the next years. Looking at more developed European e-commerce markets, such as UK or France, their situation implies that winning in the FMCG market means also winning online. Early movers often establish advantages by building up credibility in the market and generate learnings ahead of the competition. Provided that manufacturers and retailers are willing to establish similar close and collaborative relationships as in offline, it is evident to predict that a consumer-centric approach will help the FMCG e-commerce market to further growth in the future and to overcome consumer's hesitation (Nielsen 2015, 14).

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<sup>50</sup> with detailed content, right naming, keyword linkage and attractive images

<sup>51</sup> provided that the trade partners share more data

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## **Appendix**

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Please see separate document.